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KPMG LLP is pleased to submit this performance audit relative to Dougherty County School System, Beneficiary No. 127501 ("Beneficiary"), for Funding Year ("FY") 2003, in accordance with our contract with Universal Service Administrative Company ("USAC"). USAC engaged us to perform a series of performance audits for FYs 2002 and 2003 to meet the objectives identified in the Objectives and Scope section of this report.

We conducted our audit from March 28, 2005 through January 27, 2006, in accordance with *Government Auditing Standards (2003 Revision)* issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our efforts. As such, we have captured in the Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses section of this report a detailed discussion of the audit findings and other matters identified during this performance audit, along with responses to our audit findings and other matters from the USAC Schools and Libraries Division and the Beneficiary, with which we shared the results of our audit.

Since January 27, 2006, we have not performed any additional audit procedures with respect to this report and have no obligation to update this report or to revise the information contained therein to reflect events occurring subsequent to January 27, 2006.

KPMG LLP

Executive Summary

We were engaged by Universal Service Administrative Company (“USAC”) to conduct performance audits for Funding Years (“FY”) 2002 and 2003. The objectives of our audits were: (1) to provide an independent assessment of selected beneficiaries’ compliance with the regulations governing the *Schools and Libraries Universal Service Support Mechanism* (“SLSM” or “E-Rate”), set forth in 47 C.F.R. Part 54, and certain USAC implementing procedures which were established consistent with 47 C.F.R. Part 54 and other existing laws or regulations (collectively, “the Rules”); (2) to identify selected beneficiaries’ noncompliance, if any, with certain other USAC implementing procedures related to the SLSM; (3) to identify other beneficiary-specific or SLSM-related conditions that we believe warrant the selected beneficiaries’ or USAC’s attention in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries; and (4) to identify improper payments made from the Universal Service Fund related to the selected beneficiaries for the years under audit.

Scope of Audit

This report relates to the performance audit conducted relative to Dougherty County School System, Beneficiary No. 127501 (“Beneficiary”), for FY 2003. This Beneficiary is located in Albany, Georgia. This performance audit was conducted in accordance with *Government Auditing Standards (2003 Revision)*.

We collaborated with USAC and the Federal Communications Commission Office of Inspector General to develop our basic work plan, and included other procedures when determined necessary to meet the engagement objectives. The scope of this engagement included, but was not limited to, reviewing the Beneficiary’s processes for program application, service provider selection and contracting, and program cost reimbursement.

For FY 2003, amounts totaling \$9,233,834 were disbursed by SLSM on behalf of the Beneficiary under nine Funding Request Numbers (“FRN”). Those FRNs included amounts for telecommunication services, Internet access and internal connections.

Summary of Testwork

We performed audit procedures on a Beneficiary-wide level related to the application process for participation in the E-Rate program. Those procedures included reading the Beneficiary's audited financial statements, other financial information associated with the E-Rate Program (i.e., other audit reports, budget data, etc.) and technology plan for FY 2003, and evaluating the Beneficiary's calculations of E-Rate discount percentages for which it applied. Our audit was conducted during the period of March 28, 2005 through January 27, 2006.

We selected five FRNs, representing 90% of the total amounts disbursed by SLSM for the Beneficiary related to FY 2003, and performed audit procedures related to the Beneficiary's service provider selection and contracting and program cost reimbursement processes. To test the Beneficiary's reimbursement process, we selected nine reimbursement forms from the selected FRNs, which represented 97% of the disbursed amount under the selected FRNs. Further, we performed site visits at eight of the Beneficiary's 27 schools. We determined that the selected schools currently had Internet access and telephone service, which were services reimbursed for FY 2003 under Beneficiary-wide FRNs.

Summary of Results

Based on the audit procedures performed and for the transactions tested, we conclude that the Beneficiary was not compliant with the Rules identified above for FY 2003; and we identified improper payments of \$1,586. In addition, the results of our audit procedures disclosed three audit findings and five beneficiary-specific other matters which are reported herein.

Background

Universal Service Administrative Company (“USAC”) is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (“FCC”) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the Universal Service Fund (“USF”), which was created by The Telecommunications Act of 1996 to ensure that consumers in all regions of the United States have access to quality telecommunications and information services at affordable rates. The USF is comprised of four support mechanisms to ensure that its objectives are met. USAC has engaged KPMG to perform a series of performance audits for Funding Years (“FY”) 2002 and 2003, including the performance audit to which this report relates.

The USAC Schools and Libraries Division (“SLD”) administers the *Schools and Libraries Universal Service Support Mechanism* (“SLSM”), which makes advanced telecommunications affordable for the nation’s schools and libraries. Also known as “E-Rate”, this mechanism provides discounts on the cost of telecommunication services, Internet access and internal connections, with the highest discounts going to entities serving the most disadvantaged sections of the population. In both Funding Years 2002 and 2003, over 100,000 schools and libraries were funded by the USF.

Dougherty County School System, Beneficiary No. 127501 (“Beneficiary” or “DCSS”), the subject of this audit, is comprised of 27 schools, and serves approximately 16,600 students. The Beneficiary is located in Albany, Georgia. For FY 2003, SLD received requests for \$9,634,506 for telecommunication services, Internet access and internal connections from the Beneficiary, and committed and disbursed \$9,261,708 and \$9,233,834, respectively, as summarized in Table 1 below:

TABLE 1: FY 2003 Dollars Requested, Committed and Disbursed

Service Category	Requested			Committed			Disbursed		
	# FRNs	Dollars	%	# FRNs	Dollars	%	# FRNs	Dollars	%
Telecommunications	7	\$ 1,623,070	16.8%	1	\$ 1,251,360	13.5%	1	\$ 1,235,057	13.4%
Internet Access	1	95,722	1.0%	1	94,634	1.0%	1	83,063	0.9%
Internal Connections	7	7,915,714	82.2%	7	7,915,714	85.5%	7	7,915,714	85.7%
Totals	15	\$ 9,634,506	100.0%	9	\$ 9,261,708	100.0%	9	\$ 9,233,834	100.0%

Objectives and Scope

The performance audit was conducted in accordance with *Government Auditing Standards (2003 Revision)*.

The workplan was developed in coordination with USAC and the Federal Communications Commission Office of Inspector General (“FCC OIG”). The objectives of the performance audit were:

- (1) to provide an independent assessment of selected beneficiaries’ compliance with the regulations governing the *Schools and Libraries Universal Service Support Mechanism* (“SLSM” or “E-Rate”), set forth in 47 C.F.R. Part 54, and certain USAC implementing procedures which were established consistent with 47 C.F.R. Part 54 and other existing laws or regulations (collectively, “the Rules”);
- (2) to identify selected beneficiaries’ noncompliance, if any, with certain other USAC implementing procedures related to the SLSM;
- (3) to identify other beneficiary-specific or SLSM-related conditions that we believe warrant the selected beneficiaries’ or USAC’s attention in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries; and
- (4) to identify improper payments made from the Universal Service Fund related to the selected beneficiaries for the years under audit.

For purposes of this report, the following definitions are provided:

Audit finding	a condition that, in our judgment, evidences non-compliance with the Rules
Other matter	a condition that, in our judgment, evidences non-compliance with USAC implementing procedures not considered in the definition of the Rules or is a condition we believe warrants the Beneficiary’s or USAC’s attention, in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries
Improper payment	a reimbursement made that, in our judgment, was not in accordance with the Rules

Following is the timeline and phases for this performance audit:

- Planning March 28 – April 1, 2005
- Fieldwork April 4 – 20, 2005
 - Entrance Conference April 4, 2005
 - Exit Conference April 20, 2005
- Wrap-Up / Reporting April 21, 2005 – January 27, 2006

Throughout the fieldwork phase, status updates were provided to the Beneficiary, allowing timely discussions and follow-up on potential audit findings and other matters. Upon completion of fieldwork, an exit conference was held with the Beneficiary to discuss the results of the audit and the beneficiary response process. Beneficiary responses or summaries thereof, are included in the “Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses” section of this report.

We performed the audit procedures described in this report primarily at the Beneficiary’s location and by using information provided to us by USAC and the Beneficiary in advance of our visit to the Beneficiary. As part of the scope of our performance audit, we obtained an understanding of the specific internal controls relevant to the E-Rate program. Because of inherent limitations, a study and evaluation made for the limited purpose of the performance audit would not necessarily disclose all material weaknesses in the internal control structure. Further, this performance audit was not designed to, and does not, include a conclusion or opinion on the Beneficiary’s internal control processes.

The performance audit procedures were classified in the following categories: General Procedures; Application Process; Service Provider Selection and Contracting Process; and Reimbursement Process. Following is a summary of the audit procedures performed:

General Procedures

General procedures are those audit procedures that address matters that are not related to any of the identified processes, or those that may have related to all of the identified processes.

FRN Selection for Testing

We judgmentally selected five Funding Request Numbers (“FRN”) related to the Beneficiary for FY 2003. An FRN is the tracking number assigned by SLD to an E-Rate application for funding. The number of FRNs selected was determined based on the time planned to conduct the performance audit, while attempting to achieve the following two objectives: (1) select at least one FRN from each service category for which significant disbursement was made from USF funds and (2) select enough FRNs to achieve at least 25% coverage of total dollars disbursed. Table 2 below includes a summary of the amounts disbursed by SLSM related to the Beneficiary for FY 2003 in total and under the selected FRNs:

TABLE 2: FY 2003 Disbursed Dollars in Total and Selected for Testing

Service Category	# FRNs	Total Disbursed Dollars	% of Total Disbursed Dollars by Category	# FRNs	Disbursed Dollars for Selected FRNs	% of Total Disbursed Dollars Selected
Telecommunications	1	\$ 1,235,057	13.4%	1	\$ 1,235,057	100.0%
Internet Access	1	83,063	0.9%	0	0	n/a
Internal Connections	7	7,915,714	85.7%	4	7,052,097	89.1%
Totals	9	\$ 9,233,834	100.0%	5	\$ 8,287,154	89.7%

Review of Other Audit Reports

We read the Beneficiary’s Office of Management and Budget (“OMB”) Circular A-133 audit report for the fiscal year ending June 30, 2003 to identify any findings that may have impacted the Beneficiary’s compliance with the Rules, and to determine if the Beneficiary had taken corrective action relative to such findings. Matters were identified in the Beneficiary’s OMB Circular A-133 audit reports for the fiscal year ended June 30, 2003 and we noted through review of the management responses to those matters that appropriate corrective action was taken. Note that the OMB Circular A-133 audit report for the funding year ending June 30, 2004 was not yet available during the fieldwork phase of our audit.

We also inquired of USAC and FCC OIG as to whether any other audits or investigations of the Beneficiary, relative to the E-Rate program, had been, or were being, conducted by their respective audit staffs. No such audits or investigations were identified.

Application Process

Introduction

To participate in the E-Rate program, a potential beneficiary must meet certain eligibility requirements. For purposes of this audit, we considered the Beneficiary's financial position, compliance with the Rules related to the Beneficiary's technology plan, and the calculation of the Beneficiary's discount percentage upon application to USAC.

Summary of Audit Procedures

We made inquiries of Beneficiary personnel and examined the Beneficiary's audited financial statements, for the fiscal years relevant to FY 2003, to determine if the Beneficiary had endowments exceeding \$50 million, which would have rendered it ineligible for discounts under the E-Rate program.

We obtained and read the Beneficiary's Technology Plan for FY 2003 and determined whether it was properly and timely approved and included the core elements of successful school and library technology initiatives as identified by USAC.

We examined documentation supporting the Beneficiary's E-Rate discount percentage calculation. To validate the accuracy of the discount percentage, we recalculated the discount percentage in accordance with the eligibility rules for the E-Rate program.

We determined, by reference to the Beneficiary's fiscal year budgets, or other proof of funding, whether the Beneficiary had all of the necessary funding budgeted / available and approved to pay for its non-discounted portion for the requested products and services for FY 2003.

We examined documentation provided by the Beneficiary to determine whether a staff training program, designed to instruct teachers how to incorporate those goods and services into educational instruction, was in place at the time of application for E-Rate funding.

We determined through inquiry of Beneficiary personnel and observation during our site visits (see "Reimbursement Process – Summary of Audit Procedures" below) whether the Beneficiary had the appropriate hardware and software infrastructure to utilize the goods and services for which E-Rate funding was requested.

By examination of E-Rate related documents provided by both USAC and the Beneficiary, we determined whether the Beneficiary indicated compliance with certain requirements of the Children's Internet Protection Act ("CIPA") for FY 2003. Further, we gained an understanding of the Beneficiary's Internet Safety Policy, and the process by which the Beneficiary communicates and administers that policy. During site visits to a selection of the Beneficiary's schools (see "Reimbursement Process" below), we tested certain computers to validate the existence of the Beneficiary's technology protection measure (i.e., filter).

Summary of Audit Findings and Other Matters

When performing the application process audit procedures, we identified one audit finding related to discount calculation discrepancies, which is reported as Audit Finding No. 127501-F-2003-01 herein.

Service Provider Selection and Contracting Process

Introduction

The service provider selection and contracting process includes the procurement process and competitive bidding process, when applicable, by which the Beneficiary selected its E-Rate service providers and established its related contracts for eligible goods and/or services. The audit procedures addressed the Beneficiary's procurement process and the eligibility of goods and services procured using E-Rate funds.

Summary of Audit Procedures

From the five selected FRNs, we selected nine of the related reimbursement forms, representing 97% of the amount disbursed from the selected FRNs, for use in performing the audit procedures related to the service provider selection and contracting and reimbursement processes. The number of reimbursement forms selected was determined based on the time planned to conduct the performance audit, while attempting to achieve the following three objectives: (1) select a minimum number of reimbursement forms, determined as the lesser of five reimbursement forms or 100% of the reimbursement forms filed related to the selected FRNs; (2) select at least one of each type of reimbursement form submitted; and (3) select enough reimbursement forms to achieve at least 50% coverage of total dollars disbursed under the selected FRNs, with a bias toward selecting reimbursement forms related to internal connections, where we have evaluated

the risk of non-compliance to be the highest of the service categories. See Appendix 1 for identification of the selected FRNs and reimbursement forms.

We obtained an understanding of the Beneficiary's service provider selection and contracting process, including the related competitive bidding activities, through discussions with Beneficiary personnel and review of documentation provided by the Beneficiary. We used this information to determine if the design of that process was consistent with the Rules. For the service providers associated with the selected FRNs, we determined whether the Beneficiary followed its service provider selection process procedures, including those for competitive bidding (as applicable), and properly completed and utilized FCC Forms 470 (Services Requested and Certification Form) and 471 (Services Ordered and Certification Form). We also inquired as to what, if any, assistance the Beneficiary received relative to completion of the FCC Forms and selection of the winning bidders. Further, we determined whether the selected service providers had properly completed FCC Form 473 (Service Provider Annual Certification) for FY 2003.

For each product or service acquired under the selected FRNs, we obtained the service provider bills and related contracts, when applicable. The products and/or services identified on such bills and contracts were compared to the FY 2003 Eligible Services List ("ESL") published by SLD to determine if those products or services were appropriate for E-Rate discount under the Rules. The selected products and/or services identified on the service provider bills and contracts, for which discounts were sought, were also compared to the Beneficiary's FCC Form 470 to determine consistency of products and/or services described therein.

Summary of Audit Findings and Other Matters

We identified no audit findings or other matters in performance of the service provider selection and contracting process audit procedures to be reported herein.

Reimbursement Process

Introduction

The reimbursement process encompasses the Beneficiary's procedures for processing and paying invoices for allowable program disbursements, the Beneficiary and service providers' requests for reimbursement from SLSM, and the receipt of reimbursed discounted amounts by the Beneficiary from the service providers, in cases where the Beneficiary had paid such amounts to the service providers prior to disbursement by SLSM. The audit procedures for this process addressed each of the foregoing and included site visits to selected schools to determine if the goods and/or services, for which disbursement was made by SLSM, were in place and operational at the time of our visit.

Summary of Audit Procedures

We obtained an understanding of the Beneficiary's cash disbursement process, including invoice review and approval requirements, from discussion with, and documentation provided by, Beneficiary personnel to determine if the design of that process included safeguards to prevent violations of the Rules. For the selected reimbursement forms (identified in Appendix 1), we determined whether the related service provider bills (either in their entirety or for the beneficiary portion only) were paid in accordance with the Beneficiary's cash disbursement process and that the costs for the products and/or services appeared reasonable. If the service provider bills included any substitute products or services, we compared those items to the FY 2003 ESL and to any substitution authorizations issued by SLD.

We obtained the selected reimbursement forms prepared by the service providers (FCC Form 474 – Service Provider Invoice ("SPI")). The discount percentages claimed on those reimbursement forms were compared to those approved by USAC in the Funding Commitment Decision Letters issued to the Beneficiary and verified whether they were applied appropriately. For service provider bills related to the selected reimbursement forms that included products, we compared the information on the service provider bills (including make, model and serial number, where applicable) to the Beneficiary's asset/inventory records to verify inclusion of these items in the Beneficiary's property records.

For selected reimbursements for which SPI forms were submitted by the service providers, we compared the related bills to the SPI forms to determine whether the service provider sought reimbursement for the appropriate amount from SLSM and whether total billed costs (to SLSM and to the Beneficiary) were less than or equal to the total cost of the eligible products and/or services authorized under the FRN.

We also determined whether the Beneficiary requested reimbursement for less than the amounts committed by USAC under the selected FRNs. If so, and the amount of unused commitment exceeded \$1,000, we determined whether an FCC Form 500 was completed and filed with USAC.

We selected the Beneficiary's schools identified in Table 3 below for site visits. The number of locations selected for site visits was determined based on the budgeted time to conduct the site visit component of the performance audit, while attempting to achieve the following two objectives: (1) select at least five of the Beneficiary's locations which received services funded by the USF in FY 2003 under the selected FRNs and (2) include locations in our selection which received relatively higher amounts of E-Rate funding and those which received internal connections funding under the selected FRNs, with a bias toward internal connections because we have evaluated the risk of non-compliance for internal connections to be the highest of the service categories.

TABLE 3: Locations Selected for Site Visits

Location Number	Location Name
34441	Albany High School
34457	Dougherty High School
34464	Westover High School
34456	Dougherty Middle School
34467	Merry Acres Middle School
34461	Morningside Elementary School
34469	Magnolia Elementary School
34438	Lincoln Fundamental Elementary

For each site visit, personnel with responsibility for overseeing and/or implementing the technology plan were interviewed. The purpose of the interviews were: (1) to determine that the E-Rate funded products and/or services included in the selected FRNs had been received at the location; and (2) to gain an understanding of the use being made of those products and/or services and how the purchased equipment, if any, is safeguarded. We then determined by observing specific items whether the E-Rate funded products and/or services included in the selected FRNs were installed and operational.

Summary of Audit Findings and Other Matters

In performance of the reimbursement process audit procedures, we identified two audit findings related to excessive equipment and uninstalled E-Rate equipment, which are reported as Audit Finding Nos. 127501-F-2003-02 and -03 herein. In addition, we identified five beneficiary-specific other matters related to (1) tracking E-Rate related equipment, (2) lack of a disposal policy for E-Rate related equipment (3) not reporting service substitutions, (4) timely completion of the FCC Form 500, and (5) the early filing of an FCC Form 474, which are reported as Other Matter Nos. 127501-M-2003-01 through -05 herein.

Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses

In reaching our conclusion on compliance related to the audit procedures performed and the transactions tested during the performance audit, we considered and based that conclusion on the number of audit findings and the monetary effect of such audit findings.

Conclusion

Based on the audit procedures performed and for the transactions tested, we conclude that the Beneficiary was not compliant with the Rules, as defined in the Objectives and Scope section above, for FY 2003. The results of our auditing procedures disclosed three audit findings related to (1) discount calculation discrepancies, (2) excessive equipment and (3) uninstalled E-Rate equipment, which are reported below as Audit Finding Nos. 127501-F-2003-01 through -03. In addition, the results of our audit disclosed five beneficiary-specific other matters related to (1) tracking E-Rate related equipment, (2) lack of a disposal policy for E-Rate related equipment, (3) not reporting service substitutions, (4) timely completion of the FCC Form 500, and (5) the early filing of an FCC Form 474, which are reported below as Other Matter Nos. 127501-M-2003-01 through -05.

* * * * *

Audit Findings

Audit Finding No. ***127501-F-2003-01***

Condition

①

Documentation was provided by the Beneficiary to support the discount percentages reflected on its FCC Forms 471 for FY 2003. As a result, the FRNs selected for testing had a combination of NSLP and alternative survey discount mechanisms.

The Beneficiary included Dougherty County Gifted Center in its total student and free or reduced lunch student counts on FCC Form 471 #377554; however, those students were also counted at their respective home schools. As such, Dougherty County Gifted Center should have been included in the discount calculation with zero student counts.

<i>Criteria</i>	FCC Rule 54, section 505 addresses discount calculations. Block 4 of the FCC Form 471 outlines student enrollment, number of students under the National School Lunch Program (“NSLP”), percentage of NSLP students over total students enrolled, discount percentage assigned from the SLD Discount Matrix, and specific information about the entity such as entity number and name.
<i>Cause</i>	The Beneficiary included Dougherty County Gifted Center’s total student and NSLP student counts on FCC Form 471 #377554 as a result of an employee error.
<i>Effect</i>	There is no monetary effect of this audit finding since the recalculated discount rate, excluding the double-counting of students at Dougherty County Gifted Center, was the same as that calculated on the FCC Forms 471.
<i>Recommendation</i>	The Beneficiary should ensure data used to calculate discount percentages is accurate.
<i>Beneficiary Response</i>	The Dougherty Gifted Center was included in error. As suggested in another 504 in this audit, we are establishing a tier level review to prevent/detect, as much as possible, any human error(s) on the USAC forms prior to submissions. (KPMG Note: “504” was a KPMG form number used to communicate audit findings and other matters to the Beneficiary during the performance audit.)
<i>SLD Response</i>	There is no monetary effect on the Beneficiary as a result of this finding since the weighted average discount rate was not affected by the double counting of the students at the Dougherty County Gifted Center.

FCC rules do not prohibit applicants from using a combination of methods to determine its discount percentage and in some cases multiple methodologies are appropriate in order to determine an accurate discount percentage. However, it should be noted the FCC has clarified that in, “the narrow circumstance where there is evidence that an applicant has manipulated its discount rate in a deliberate attempt to defraud the government, full recovery may be appropriate”¹. In this instance the evidence does not indicate that the applicant overstated its discount percentage by using multiple methodologies for determining its discount. Further guidance regarding discount calculations can be found in the instructions to the FCC Form 471 and on USAC’s website. SLD management concurs with this finding and recommendation.

¹ See Fifth Report and Order at para. 27

Audit Finding No.

127501-F-2003-02

Condition

②

During our site visits, we noted a number of computer drops purchased with E-Rate funds that had no computer connected or in use. As such, we requested information related to computer drops and the number of computers available for all of the Beneficiary’s schools to determine whether there were enough computers available to make use of the computer drops installed. Approximately 7,250 computers were available to make use of the 14,417 computer drops installed. While the Beneficiary’s average was approximately two drops for each computer; we identified 13 locations with more than two drops per computer. Specifically, the following locations have more than two computer drops per computer:

<i>Locations with Two Drops or More Per Computer</i>			
Location	No. of Drops	No. of Computers	Ratio of Drops to Computers
Albany High	742	362	2.1 to 1
Alice Coachman Elementary	507	131	3.9 to 1
Dougherty High	1017	455	2.2 to 1
Jackson Hgts Elementary	444	187	2.4 to 1
Lamar Reese Elementary	423	153	2.8 to 1
M.L. King Elementary	507	234	2.2 to 1
Mock Road Elementary	413	150	2.8 to 1
Northside Elementary	344	103	3.3 to 1
Sherwood Elementary	677	182	3.7 to 1
Sylvandale Elementary	345	86	4.0 to 1
Sylverster Road Elementary	368	153	2.4 to 1
West Town Elementary	395	110	3.6 to 1
Westover High	822	292	2.8 to 1

Criteria

FCC regulations state that computer equipment should be available or budgeted to make use of supported services for which discount services were sought. USAC guidance further states that while installing additional internal connections to make use of anticipated but not purchased end-user equipment is permissible, these internal connections must be funded with non E-Rate funds.

Cause

This excess equipment was purchased to support future capacity. The Beneficiary informed us that it plans to purchase additional equipment to make use of these drops, but it had not done so as of the date of the performance audit.

Effect

The monetary effect of this audit finding could not be determined since there is no specific guidance from the FCC as to a benchmark against which the Beneficiary's number of computer drops could be compared to determine the specific numbers of excess drops.

Recommendations

1. Acquire or budget for additional personal computers to make more effective use of existing E-Rate funded internal connections, specifically Internet drops and ports.
2. When designing or installing future room configurations, consider the level and capacity of existing equipment to ensure E-Rate equipment is best utilized.

Beneficiary's Response

DCSS agrees with the auditor's findings and recommendations. In accordance with our technology plan, the school system purchased over 2,500 workstations during SY 2003-2004 and has purchased more than 750 units this school year. We will continue to add workstations to our inventory during this school year. The number of drops requested was based on our Technology Plan and the recommended number of drops per classroom by GADOE (Georgia Department of Education).

SLD Response

Schools and Libraries Program rules indicate all equipment purchased with program funds must be installed and be operational at the site referenced on the FCC Form 471. The school system did have a technology plan that charted their long term goals and it is cost effective to install more computer drops during an initial installation as compared to incurring additional cost each year. There is no program rule or guidance from the FCC that addresses the issue of an applicant having excess drops if their intention is to purchase additional equipment as funds become available. Therefore, SLD management concurs with the effect and recommendation.

Audit Finding No.

127501-F-2003-03

Condition



During the site visit to Magnolia Elementary, two Hewlett Packard 2524 switches, which were delivered in August 2003 with a total non-discounted cost of approximately \$1,762 were found uninstalled.

<i>Criteria</i>	FCC Regulations state that equipment purchased with E-Rate funds should be installed and operational at the location for which it was funded.
<i>Cause</i>	We were unable to determine the cause of this finding. Since determining the cause of audit findings was not an objective of the performance audit, no further work was performed.
<i>Effect</i>	Disbursements totaling \$1,586 are subject to recovery as a result of the Beneficiary not installing the two HP 2524 switches in a timely manner.
<i>Recommendation</i>	The Beneficiary should ensure equipment purchased with E-Rate funds is installed and operating as intended.
<i>Beneficiary Response</i>	DCSS acknowledges that the two pieces of equipment were not installed. This was a human error that was missed during our review. We will review our procedures and make changes to prevent this from occurring again.
<i>SLD Response</i>	Pursuant to 47 C.F.R. §54.507 (d), all equipment purchased with E-Rate funds must be installed and be operational at the site referenced on the FCC Form 471 prior to September 30 th following the close of the funding year. The School District accepts the auditor's finding and will review its procedures to ensure this does not occur in the future. USAC concurs with this audit finding, recommendation, and will seek recovery consistent with FCC Rules and Orders.

Other Matters

Other Matter No.

127501-M-2003-01

Condition

The Beneficiary was unable to provide in a timely manner a complete and accurate inventory tracking listing for equipment, including serial numbers and locations, for all E-Rate equipment purchased during FY 2003. In addition, it was noted during the audit that equipment was delivered to multiple sites without central control of inventory and delivery receipts.

Criteria

USAC implementing guidelines require that all E-Rate assets be properly and adequately tracked. The control of fixed assets and equipment requires establishing procedures that accurately at a minimum list the make, model, location and serial number for all equipment funded by E-Rate.

Cause

While the Beneficiary provided some E-Rate related asset information, we noted the Beneficiary's E-Rate related asset records appeared to be incomplete and poorly managed.

Effect

There is no monetary effect as a result of this other matter to the Beneficiary since we were able to locate all equipment selected for verification during the audit.

Recommendation

We recommend that the Beneficiary establish a fixed assets inventory and tracking process to properly account for E-Rate equipment including documentation to evidence delivery and installation. Further, the asset listing should at a minimum include make, model, location and serial number, date installed, FRN number, customer bill reference numbers, pre-discount cost, non-discount cost, reference number for the payment of the equipment and any other data that is applicable to an E-Rate asset inventory listing. The USAC website provides additional guidance in the best practices area.

SLD Response

There is no rule violation since both the applicant and service provider followed appropriate instructions for the given forms. USAC agrees that service providers should not submit the FCC Form 474 until the applicant has filed the FCC Form 486. However, it should be noted that USAC denies invoices that are submitted for funding requests that do not have a corresponding FCC Form 486.

Other Matter No.

221267-M-2003-05

Condition

The Beneficiary had an excess of \$27,874 in total committed funds over total expended funds for FY 2003 that were not adjusted in a timely manner by utilizing an FCC Form 500. Total committed funds for E-Rate FY 2003 were \$9,261,708 and total disbursed funds for the same funding year were \$9,233,834.

Criteria

Per FCC Form 500 and related instructions, the Beneficiary should complete an FCC Form 500 to modify the FRNs whose funds are not completely expended. By filing an FCC Form 500, the unexpended funds become available so that USAC can reallocate the funds as needed.

Cause

The Beneficiary was unaware of the need to file an FCC Form 500.

Effect

There is no monetary effect to the Beneficiary as a result of this matter; however, unused amounts for FY 2003 of \$27,874 could have, potentially, been utilized for other applicants.

Recommendation

The Beneficiary should file an FCC Form 500 when it determines committed funds will not be used during the funding year to release or cancel the FRNs so that the funds committed could be released and reallocated by USAC as needed.

Beneficiary Response

DCSS will follow this recommendation within the next week.

SLD Response

There is no E-Rate program rule requiring applicants to complete FCC Form 500 to report unexpended funds. Through outreach and training, USAC will continue to encourage applicants to complete and submit FCC Form 500 when committed funds are not needed. SLD management concurs with this matter and recommendation.

Improper Payments

Based on the audit procedures performed and for the transactions tested for FY 2003, we noted improper payments of \$1,586 related to Audit Finding No. 127501-F-2003-03. We were unable to determine the amount of improper payments, if any, related to Audit Finding No. 127501-F-2003-02.

APPENDIX 1: Selected FRNs, Related Reimbursement Forms, and Reimbursement Forms Selected for Testing

				Reimbursement Forms for Selected FRNs		Reimbursement Forms Selected for Testing	
Selected FRNs	SPIN #	Service Provider	Form Type	#	\$\$\$	#	\$\$\$
1041749	143026025	Water, Gas & Light Commission	BEAR-472	0	\$ -	0	\$ -
			SPI-474	2	\$ 1,235,057	1	\$ 981,617
			Total	2	\$ 1,235,057	1	\$ 981,617
1050404	143020237	Progressive Communications	BEAR-472	0	\$ -	0	\$ -
			SPI-474	2	\$ 2,143,283	2	\$ 2,143,283
			Total	2	\$ 2,143,283	2	\$ 2,143,283
1050447	143020237	Progressive Communications	BEAR-472	0	\$ -	0	\$ -
			SPI-474	1	\$ 501,674	1	\$ 501,674
			Total	1	\$ 501,674	1	\$ 501,674
1050472	143020237	Progressive Communications	BEAR-472	0	\$ -	0	\$ -
			SPI-474	1	\$ 534,496	1	\$ 534,496
			Total	1	\$ 534,496	1	\$ 534,496
1050704	143006366	Metro Services	BEAR-472	0	\$ -	0	\$ -
			SPI-474	4	\$ 3,872,644	4	\$ 3,872,644
			Total	4	\$ 3,872,644	4	\$ 3,872,644
Totals				10	\$ 8,287,154	9	\$ 8,033,714

Beneficiary Response

DCSS provided the auditors an asset listing on an excel spreadsheet. I do acknowledge there is a need for improvement by adding additional information. I will review the best practices area and follow the recommendations as in accordance of USAC's regulations.

SLD Response

In Funding Year 2003 it was an administrative function, not a program rule requirement to identify equipment and itemize it by make, model, and quantity. Going forward, the applicant should familiarize themselves with the FCC's *Fifth Report and Order*², which clarified the record keeping requirements. For further guidance, the applicant should refer to the USAC website, "Schools and Libraries", "Reference Area" under "Demonstrating Compliance with Program Rules." SLD management concurs with the matter and recommendation.

² See *Fifth Report and Order* at para. 47.

Other Matter No.

127501-M-2003-02 ✓

Condition

The Beneficiary does not have a policy that specifically addresses the disposal of E-Rate equipment, obsolete or otherwise. The Beneficiary customarily disposes of this type of equipment through sale or auction. We did not identify any E-Rate related equipment that was disposed of through sale or auction.

Criteria

FCC Rule 54.513(a) addresses the prohibition on resale of E-Rate related equipment. Eligible services purchased at a discount under the E-Rate program shall not be sold, resold, or transferred in consideration of money or any other thing of value.

Cause

The Beneficiary was unaware of the FCC rule related to resale of E-Rate equipment. As such, the Beneficiary did not develop a disposal policy specifically for E-Rate equipment.

<i>Effect</i>	There is no monetary effect to the Beneficiary as a result of this other matter since the Beneficiary indicated it did not dispose of equipment acquired with E-Rate FY 2003 funds and we did not identify any such equipment.
<i>Recommendation</i>	We recommend that the Beneficiary develop and implement a policy that specifically addresses the disposal of E-Rate equipment in compliance with FCC rules.
<i>Beneficiary Response</i>	DCSS agrees that a local policy addressing E-Rate equipment disposal needs to be addressed. We will review procedures to ensure USAC regulations will be followed concerning the disposal of E-Rate equipment.
<i>SLD Response</i>	In Funding Year 2003, pursuant to 47 C.F.R. § 54.513, eligible services purchased at a discount under this subpart shall not be sold, resold, or transferred in consideration of money or any other thing of value. On March 11, 2004 the rule was expanded in the <i>Third Report and Order</i> ³ , to indicate “that eligible services and equipment components of eligible services purchased at a discount under this subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event that the particular location where the service originally was received is permanently or temporarily closed. If an eligible service or equipment component of a service is transferred due to the permanent or temporary closure of a school or library, the transferor must notify the Administrator of the transfer, and both the transferor and recipient must maintain detailed records documenting the transfer and the reason for the transfer for a period of five years.” Since the applicant did not violate these rules in Funding Year 2003, SLD management concurs with the matter, effect, and recommendation.

³ See *Third Report and Order* at para. 27.

Other Matter No. ***127501-M-2003-03***

Condition We compared service provider bills and the Beneficiary's fixed asset listing to the FCC Form 471, Item 21 Attachment, and we noted that there were equipment substitutions related to FRN #377529; however, we were unable to find any correcting service substitution requests filed with USAC. The service provider bills listed different equipment than the equipment listed on the Beneficiary's FCC Form 471, Item 21 Attachment.

Criteria Per USAC guidance, beneficiaries must obtain approval of service substitutions from SLD. Requests for approval of a service substitution should be in writing to SLD and the request must contain specific information related to the service substitution.

Cause The Beneficiary was unaware of the requirement to obtain pre-approval from SLD to support substitutions from the service provider quotes.

Effect There is no monetary impact on the Beneficiary as a result of this audit finding since the overall cost of the FRN did not increase as a result of the substituted products obtained, and the substituted products obtained had the same functionality as those products submitted and approved on the Beneficiary's FCC Form 471.

Recommendation The Beneficiary should submit a correcting service substitution request to SLD prior to the end of the related funding year. Pre-approved or correcting service substitution request information is located on USAC's Schools and Libraries' Reference section under the topic "Service Substitutions".

Beneficiary Response DCSS agrees to the recommendation as described above.

SLD Response

All substituted products were eligible based on the Eligible Services List and the substituted products met the requirements for an eligible service substitution. Therefore, the fact the applicant did not request a service substitution does not warrant recovery⁴. Going forward the applicant is aware of the procedure to submit a request to USAC for service substitutions. SLD management agrees with the finding, effect, and recommendation.

⁴ See Fifth Report and Order at para. 23.

Other Matter No.

127501-M-2003-04

Condition

FCC Form 474 #397123 was filed one day prior to the Beneficiary filing its FCC Form 486.

Criteria

Per instructions for the FCC Form 486, Receipt of Services, the FCC Form 486 must be filed before the service provider files the FCC Form 474. The FCC Form 474 must be filed no later than (1) 120 calendar days after the filing of an FCC Form 486 or (2) 120 calendar days after the last date to receive services requested, whichever is later.

Cause

The Beneficiary was not aware the service provider had filed the FCC Form 474 #397123 one day prior to it filing its FCC Form 486 for FY 2003.

Effect

There is no monetary effect to the Beneficiary since the Beneficiary filed the FCC Form 486 according to USAC guidelines and the Service Provider complied with the requirement to have provided service before filing the FCC Form 474.

Recommendation

There is no recommendation for the Beneficiary since the Beneficiary filed the FCC Form 486 according to USAC guidelines.

Beneficiary Response

No Beneficiary response is required.